

January 22, 2002

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by: Jim White, Senior Project Coordinator, 673-5170

Approved by: Steve Cramer, MCDA Executive Director _____

SUBJECT: Update on Status of Former Sears property, Chicago and Lake.

Previous Directives: December 3, 1997, authorized a \$2,000,000 Leveraged Investment Account loan and a \$200,000 NRP Loan to STA Associates, Inc.; July 17, 1998, approved \$500,000 in MILES funding for retrofit items; October 24, 1997, and April 24 and October 30, 1998, authorized grant applications to and receipt of \$4,600,000 from Metropolitan Council Tax Base Revitalization Account; Fall 1998 authorized Federal Empowerment Zone designation for the project area and receipt of \$3,000,000 from HUD; March 25, 1999, approved Empowerment Zone funding for retrofit items, pollution abatement and a childcare facility; April 9, 1999, appropriated \$650,000 in FUND CBG and waived 3% City admin fee; June 1999 authorized application to HUD for an \$8,500,000 Economic Development Initiative grant and loan for parking ramp construction contingent on application for a \$6,500,000 Section 108 loan; July 19, 1999, directed staff to proceed with ramp construction financing and development plans and to require STA to meet certain conditions before ramp construction could begin. On March 12, 2001, the City Council confirmed a settlement in lieu of foreclosure between MCDA and STA Associates, Inc., and STA Development Corporation regarding the Great Lake Center, and authorized the necessary steps to implement the settlement, including the direction to refer the appropriation requests to City Council to secure the funds needed for the settlement. On August 10, 2001, the Board of Commissioners confirmed the settlement terms in lieu of foreclosure for a lender to lender workout with Marquette Bank regarding the Great Lake Center project.

Neighborhood Group Notification: Not applicable.

Consistency with *Building a City That Works*: Consistent with goals to remove blight and strengthen neighborhood commercial corridors and nodes.

Comprehensive Plan Compliance: Not applicable.

Zoning Code Compliance: Not applicable.

Impact on MCDA Budget: Not applicable.

Living Wage / Business Subsidy: Not applicable.

Job Linkage: Not applicable.

Affirmative Action Compliance: Not applicable.

Recommendation: This is a receive and file report. No action is requested at this time.

The MCDA took title to the former Sears property at Chicago and Lake Street at the end of December, 2001. The following report provides a brief background of the MCDA's involvement in this property, and a summary of the current status of the development.

Background

The City of Minneapolis, the Metropolitan Council, Powderhorn Park Neighborhood, the U.S. Department of Housing and Urban Development, the State Legislature, and Metro Transit collectively invested and/or committed over \$23 million in the former Sears complex in South Minneapolis, in the form of mortgages and grants for STA Associates, a Minneapolis development company. Marquette Bank of Minneapolis and Allina provided additional project financing to the developer.

Sears had abandoned use of the 20-acre site in late 1993. Sears had built its catalogue warehouse and retail store in three stages in 1928, 1964, and 1979. Except for Minnesota Diversified Industries (MDI) and Diversified Distribution Systems (DDS) in the former north warehouse, and Ionex in the 1964 Annex, the remaining 1.3 million square feet of the 1.9 million gross square foot complex is vacant.

For over thirteen years MCDA has worked to secure a viable development proposal for the site. The project is challenging for a number of reasons: 1) its size, 2) obsolete layout, and 3) significant levels of pollution within the complex, all of which have prevented serious private-sector consideration of rehabilitating the buildings. In the mid 1990s the Daly Group from Chicago spent three years attempting to redevelop the site. Their proposal called for complete demolition of the Sears structures.

STA purchased the site from Sears in March of 1998 for \$5.9 million. The financing included \$3.7 million from Marquette Bank, \$2.2 million from MCDA, including \$200,000 in Powderhorn Park NRP funds, and \$1,000,000 in pre-paid parking rent from Allina. . Additional funds were secured from Marquette Bank for the purchase of other property along Lake Street and Chicago Avenue, to complete the footprint needed for parking structures and other future development. The Family Dollar Store and Sports Dome, at 10th Avenue and Lake Street are part of our purchase.

The City's Goals for the project were: 1) eliminating blighting influences, 2) providing needed redevelopment, including commercial, industrial, and retail services within the community; 3) securing additional parking for Abbott Northwestern Hospital's expansion needs, and 4) providing a project which would employ people from the surrounding neighborhoods.

MCDA applied for and received numerous grants for the proposed STA development. The Metropolitan Council awarded the project \$4.5 million for asbestos abatement and related cleanup activities, and the City's HUD Empowerment Zone application included the project as one of its centerpieces. Most of the asbestos pollution in the buildings was removed as a result of the grants. But because of lack of development progress, public funding is still available (see attached chart of public funding).

During the 1997-98 Legislative Session, the City and MCDA sought and received special tax increment legislation to allow for the construction of public parking ramps and a phasing of the project's completion over a seven-year timeframe. Implementation of this special legislation was not triggered for the same reason - lack of development progress by STA.

The City Council approved zoning, which allows for mixed-use development with flexibility to accommodate multiple uses within the same building. Metro Transit set aside funding for a bus transit hub on the West Side of the 1928 tower. The Empowerment Zone Board approved funding for a unique child care facility to serve the expected development.

On the private sector side, however, STA never secured additional financing beyond its initial startup funding. In March of 2001, the Agency sought and was given approval by the City Council to enter into workout negotiations with the involved parties. On December 21, 2001, title to the property was transferred to MCDA.

MCDA's workout agreement with the major investor, Marquette Bank, keeps the bank's investment in the property. MCDA holds a no-interest mortgage in favor of Marquette Bank for approximately \$7 million. The agreement calls for a six-month option for its development subsidiary, United Properties, to propose a development project for the MCDA to consider. United Properties brings a different and higher level of expertise and financial capability to the table. Some of the activity of developing the property will occur outside the United Properties option, as discussed below.

Development Outlook

As there are few structures in Minnesota larger than the former Sears complex, additional property management resources are required. The lender workout agreement with Marquette Bank has United Properties managing the site. United Properties manages over 20 million square feet of office and industrial and retail space in the Twin Cities, and is well equipped to handle the responsibility. Property

management costs are expected to be funded by rents from the tenants currently on the premises.

The Midtown Greenway divides the property into two development nodes (see attached site plan) The north node holds the 1979 warehouse, home to MDI and DDS. The open surface parking lot to its west is leased to Abbott Northwestern Hospital, an operating division of Allina, for employee parking. Over the Greenway is the 1964 Annex. The south node holds the 1928 building containing the distinctive 18-story tower. There are three parking areas in the south node. To the east of the 1928 tower is an 88-stall parking lot off 11th Avenue and 29th Street leased by Abbott Northwestern. A nearly full block of parking sits between 10th and 11th Avenues and is occupied by MDI and DDS for employee parking. The Family Dollar Store and Sports Dome building are at the south end of that block. West of the 1928 tower is another large surface lot, which fronts both Chicago Avenue and Lake Street. The one-story buildings on the southwest corner of that lot are privately owned.

Abbott Northwestern Parking Development

Abbott Northwestern Hospital is planning a major expansion of its heart hospital facilities on the existing campus over the present main hospital and entrance. This investment by the hospital is expected to increase the need to employ support personnel and to draw patients from well beyond the city itself.

In order to accomplish the heart hospital expansion within Abbott's timetable, additional structured parking must be developed soon. The site identified for this use is the lot at 28th and Chicago, west of MDI. Abbott would purchase the land from the Agency, and the proceeds would go toward reducing the Marquette Bank debt. Abbott Northwestern has informed MCDA that it is beginning the process of seeking neighborhood input and support for its plans.

Consolidating Abbott's parking now at the former Sears site and adding the hospital expansion need would require a ramp of 1150 cars. The City's Parking Demand Study has set a limit of no more than 1250 cars at the 28th and Chicago location, so the ramp under discussion is below that size. In order to fund this structure, Abbott has requested MCDA financial assistance using a combination of Pay-Go-Tax Increment and 501C3 (non-profit) revenue bonds. A separate report will be prepared on this request and sent forward for consideration at a future Council meeting.

1979 Building

Several private parties, including MDI, DDS, Allina, and United Properties have expressed an interest in purchasing the 1979 Building. The purchase of the building would be subject to the current leases which run for another 6 years. The property functions independently of the structures south of the Greenway and could be sold independently and without impact on the 1928 Building development. Such a sale could further reduce or eliminate entirely Marquette's mortgage.

Housing Interest

The Agency has met and discussed with local development groups the opportunity of creating housing in the 1928 Building. Lower ceiling heights on the structure's upper floors are an impediment to office and manufacturing tenants, but present a nearly ideal height for residential uses. Modifications to parts of the building would be necessary in order to create window views for all units. Lower floors would continue to be marketed for commercial users. An initial estimate by Common Bond indicates that 300 units of affordable housing could be developed.

In order to determine the viability and financing of a housing use, a market analysis will be needed as well as an estimate of support services and facilities needed for occupants in a high rise environment.

Lake and Chicago Butler Drug

The Butler Drug store property owner has approached the MCDA with a plan for a new drug store on the site. The current business is not cash flowing, and a change has to be made soon. The plan calls for MCDA assistance in purchasing and relocating the adjacent property owner and users, and selling additional parking from the former Sears property holdings. Discussions have focused on siting any new building at the corner with parking at the side and rear. An adjacent property owner is also interested in redeveloping at the corner, but his plans call for a cooperative effort with the Butler Drug property owner.

Metro Transit Hub

Metro Transit has set aside funding for a large transit hub on the west side of the 1928 Building. The Chicago Lake intersection is one of the busiest in the transit system and would be a good asset for the overall site development. Provision would be made for a good connection to the Midtown Greenway. Metro Transit officials will be presenting their site needs to MCDA for review.

Hennepin County Service Center

In 1999, the Legislature approved a \$3 million grant for Hennepin County to occupy space in the Great Lake Center. The space would be used for public services, and would serve individuals throughout south central Minneapolis in a convenient and nearby facility with free parking. STA and the County were unable to conclude an agreement, but the funding is still available, and the County continues to express its interest in the project. MCDA would like to pick up where the former developer left off, and conclude an agreement with Hennepin County.

Train Museum, Greenway Train Shed

The Minnesota Transfer Railroad has indicated its interest in siting a railroad museum in the train shed beneath, and attached to the 1964 Annex. The shed is owned in part by Hennepin County by way of its purchase of the Greenway. The land beneath it is owned by MCDA. The museum would serve as a destination to visitors, and could facilitate the development of a good Greenway connection to the project above.

Transfer Railroad staff will be preparing a proposal for MCDA review. If ultimately approved, a fundraising effort would be started by the Transfer Railroad, and rail cars in its inventory would be moved into the shed before the remaining Greenway tracks are removed later this year.

Citizen Participation

The Chicago Lake Project Review Committee is the main organization established to communicate issues surrounding redevelopment at Chicago and Lake. Its membership is drawn from the following organizations: Phillips, Powderhorn Park, Central Neighborhood, the Chicago Lake Business Association, and Abbott Northwestern Hospital. The Committee is in need of updating its membership. The current Chair, Craig Anderson, has indicated he wants to step down after many years of volunteer service. The stakeholders of the Committee are being asked to appoint new delegates so as to restart the neighborhood review process that has been on hold until the Agency could gain title to the property.

Recommendation: This is a receive and file report. No action is requested at this time.